FitchRatings

FITCH AFFIRMS FREDERICKSBURG, VA'S GO AT 'AA+'; OUTLOOK REVISED TO STABLE

Fitch Ratings-New York-20 January 2011: In the course of Fitch Ratings' continuous surveillance effort, the following rating action has been taken on Fredericksburg, Virginia's (the city) bonds:

--$6 million general obligation (GO) bonds, series 2001A affirmed at 'AA+'.

The Rating Outlook is revised to Stable from Negative.

RATING RATIONALE:
--The Outlook revision to Stable from Negative reflects the city's demonstrated willingness and ability to take effective actions to ensure continued structural balance and maintenance of sound reserve levels.
--The area economy remains diverse with the presence of the higher education, health services and government sectors providing a level of long-term stability.
--Debt levels are moderate and are expected to remain so over the next few years.

KEY RATING DRIVER:
--Fitch views continued demonstrated ability to adjust for budget variance and maintenance of healthy reserve levels as critical given the city's exposure to economically sensitive revenues, including potential future volatility in sales tax revenues and the tax base.

SECURITY:
The bonds are general obligations of the city, secured by its full faith, credit and taxing power.

CREDIT SUMMARY:
Fredericksburg is located on Interstate-95, approximately halfway between Richmond, VA and Washington, D.C. The area economy is relatively diverse with higher education, health services and government. Additionally, the city serves as a regional retail center. The city's economy had softened over the past few years from the recent recession coupled with increased competition from area retail. Assessed value (AV) declined 13.4% in fiscal 2010 with the most recent revaluation while fiscal 2010 sales tax revenues were over 20% below their peak in fiscal 2007. However, current data indicates the area economy is beginning to stabilize. The 9.5% unemployment rate for October 2010 remains constant from a year prior while city employment and the labor force have increased 1.7% over the same period. Housing data provided by the city shows housing selling points matching up well against current assessments while year to date sales tax revenues are roughly flat from a year prior. Economic development of the city continues with additional retail being added in the past year as well as a commercial printing facility and the ongoing construction of a medical office building. Fitch notes the presence of the University of Mary Washington, one of the city's top employers, which adds a degree of long-term stability to the economy.

Despite drawing down fund balance in the last half of the past decade, the city has remained structurally balanced with healthy reserve levels. The city took effective actions to improve its fiscal position further in fiscal 2010 including reducing spending for capital and education and raising the millage rate to offset the AV leading to the city realizing a $1.8 million surplus for the year. The unreserved fund balance increased to $17.3 million, equal to a strong 24.1% of spending. The city expects to end fiscal 2011 roughly flat with sales tax revenues outperforming the budget and has no plans to make any significant draws on reserves over the next few years. The city has ample remaining financial flexibility, including the ability to increase the tax rate or make measurable expenditure reductions if necessary, which could be used to offset future budgetary gaps.

Debt levels are moderate and are expected to remain so given the city's debt policy and capital needs. While the city typically updates its five year capital improvement plan (CIP) annually, it took a pause from the annual update in fiscal 2011 and plans to have a full update for fiscal 2012. The fiscal 2010-2014 CIP totalled $77.7 million with public facilities accounting for over half of all needs. The city's major upcoming capital project is for a courthouse which it projects will cost roughly $40 million and will be bond funded, most likely in the next 12 months. There is no exposure to variable rate or derivative risk. Debt is limited to 4.8% of real property AV which is well above the current level of 2%.

Contact:

Primary Analyst
Rachel Barkley
Director
+1-212-908-0514
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Jaissy Lorenzo
Analyst
+1-212-908-9167

Committee Chairperson
Kathy Masterson
Senior Director
+1-415-732-5622

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope and LoanPerformance, Inc.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 16, 2010;
--'U.S. Local Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564566